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IN THREE SECTIONS

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Section I

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EDITORIAL DEPARTMENT NOTE

The Bausch & Lomb Optical Company of Rochester has developed and is operating successfully a system of budgetary control which is unique in many respects. This company operates on a sales budget which is based upon statistical facts and figures regarding each line of product, each type of sales outlet, territorial and salesmen's potential sales, and many other factors concerning which their accounting department gathers and furnishes information. The first paper in this issue of our Bulletin concerns the methods through which they attempt to secure "Profits Through Controlled Distribution." There are many ideas presented which merit the very careful consideration of anyone concerned with the study of his company's potential markets and sales possibilities and budgets. It is well written and illustrated by numerous charts and tables.

Elihu Hedges, the author of this paper, was graduated from the University of Rochester and holds an M.B.A. degree from the Graduate School of Business Administration of Harvard University. In the Delco Appliance Corporation, Rochester, N. Y., now a division of General Motors, he had charge of Sales Promotion for one division of the company. In 1929 he was placed in charge of the Sales Research and Statistics Department at the Bausch & Lomb Optical Company, which position he still holds. Mr. Hedges is active in the work of the Rochester Chapter of the N. A. C. A. and is co-instructor in the Budgetary Course at the Rochester Y. M. C. A. School sponsored by the Rochester Chapter of the N. A. C. A.

The second paper in this Bulletin discusses the difficulties encountered in the attempt to establish correct selling prices, and some of the conditions which at present prevent a solution of this important problem. The author suggests that it may be necessary to abandon the dogma of unlimited freedom of competition as the source of public welfare, and adopt instead an orderly procedure which will restrain the unbridled liberty of competition, and coordinate the actions of individual industrial units to produce desired results. If such conditions are to be attained our objections to what is commonly known as "restraint of trade" are no longer tenable.

It is common knowledge that much of today's business is being done at no profit or at a loss. This condition prevails even in those companies whose production costs are at a minimum and whose fixed charges for idle plant are still not included as part of cost of goods manufactured. Current price levels are too low to cover even these reduced costs.

The situation is due in large measure to deliberate selling at whatever price is necessary to secure the desired volume. This curious philosophy was once expressed by a manufacturer who said that "each unit had to be sold at a loss, but hoped to sell enough units to make a profit." Too many responsible persons in industry still believe that volume is the only criterion, and that with sufficient volume, a profit can be made no matter what the price.

Nelson B. Gaskill, the author of this paper, is a graduate of Princeton University and Harvard Law School. He is a member of the Bar of New Jersey and served from 1906 to 1914 as Assistant Attorney-General of that state. He was Federal Trade Commissioner from 1920 to 1925. He has for several years been engaged in the general practice of law, more particularly in the field of trade relations, and for the past three years has been President of the Lead Pencil Institute, Inc. Mr. Gaskill is the author of "Price Discrimination under the American Can Company Case" and "Price Control in the Public's Interest."

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April 15, 1933

PROFITS THROUGH CONTROLLED DISTRIBUTION

By Elihu Hedges,

Sales Research and Statistics,
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Distribution Cost Control

A picture is often vividly presented showing the segregation of the sales dollar the manufacturer receives. The cost of material, labor, and overhead consumes 60 to 75 cents, and anywhere from 15 to 30 cents is shown to be the selling cost. Going further into examination of the price the consumer pays for the product for which the manufacturer receives a dollar, in most cases the retail mark-up ranges from 75 to 200 per cent. Of the consumer's dollar the retailer is receiving from 25 to 50 cents on which to do business, and the wholesaler has from 5 to 20 cents to cover his distribution costs, varying with the line of product. Chart 1 shows a typical example of selling costs.

All of these expenses, except the factory costs, labor, material and overhead, must be considered as costs of distribution. Economists are holding up their hands in horror over the growing demands of those who distribute goods from the manufacturer to the wholesaler, and from the wholesaler to the consumer. But this is not a new story. From N. A. C. A. platforms this same story has been told countless times. Many eloquent pleas for the curtailment of distribution costs have been made. With irrefutable logic it has been pointed out that distribution costs must be curtailed. The point is, what of it? After several years of discussion, distribution costs have not been curtailed. Distribution costs have in many cases increased.

Perhaps it is a bold statement to say that there *is* a solution to this difficulty.

An attempt will be made in this discussion to outline a definite program that will result in aggressively reducing costs of selling. In general terms, the solution is simple. It is this: Some thoroughgoing research work must be done to determine why the present distribution cost situation exists, and at what points it can be put under control. Detailed study has been given to the cost prob-

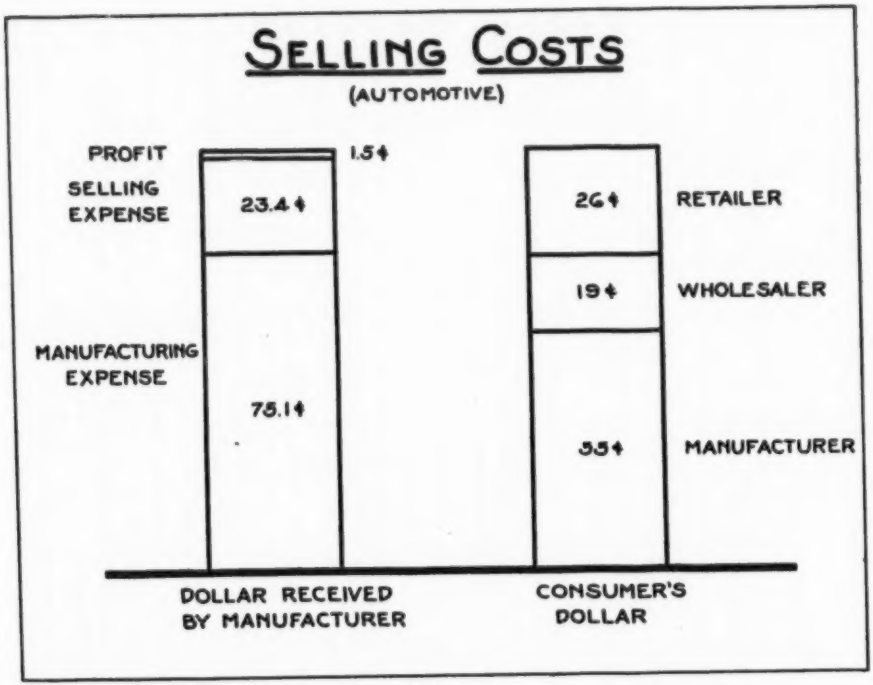
SELLING COSTS
(AUTOMOTIVE)
PROFIT
1.5¢
SELLING EXPENSE
23.4¢
MANUFACTURING EXPENSE
75.1¢
26¢
RETAILER
19¢
WHOLESALER
55¢
MANUFACTURER
DOLLAR RECEIVED BY MANUFACTURER
CONSUMER'S DOLLAR

CHART 1

lems inside of the plant of the Bausch & Lomb Optical Company. A large force has been assigned to the cost accounting department. They have studied every phase of manufacturing activity in minute detail to determine how the manufacturing costs can be hammered down to the last penny. The sales department has been handed a tremendous slice of the income of the plant and asked to go out into the field and spend freely in producing sales. There has been in many cases very superficial control over this expense, and little detailed study of how economies can be effected.

Standards of Distribution

It is proposed that proper research be done to make possible a system comparable to the standard cost system that is at work in the manufacturing division. It is proposed that every phase of expense and effort in the production of sales be accompanied with a measure of standard performance for that operation. The management should be enabled to examine every phase of selling expense, to determine whether it is being kept within reasonable bounds, and, more important, whether it is being directed towards the correct objectives in accordance with the predetermined goals of the Company.

As this procedure is outlined, it will readily be seen that the standards to be applied will not always be in terms of *dollars of labor at standard against dollars of labor actual,* but there will be a variety of terms, such as *the standard number of calls* to cover a given sales area against *the number of calls in actual performance,* or *the number of miles of travel* to cover a given area at standard against *the miles of travel actual.*

It will be seen that this plan is not a simple panacea for curing distribution difficulties, but that a recommendation is made that it is necessary for some one to take off his coat and go to work on the distribution cost problem just as the cost accountant took off his coat and went to work on the manufacturing cost problem some time ago.

Budgetary Control

There is some background that is essential to this plan. If sales control is part of a set-up, such as the system of budgetary con-

trol developed at the Bausch & Lomb Optical Company, then this plan can be geared into the budget system to great advantage. Budgeting in its finest sense is the expression of the future policy of the Company in financial terms.

The sales forecast, under budgetary control, becomes the predetermined sales program of the Company, and any inaccuracies in the sales forecast have an upsetting effect on the whole system. With a definite sales program and all operations geared to that program, it can be seen that control of sales effort becomes increasingly essential, and at the same time more effective, through the budget system.

Some of the tools to be used in making a sales forecast and in controlling sales effort will be discussed briefly. It is necessary to have such tools as the business conditions analysis, potential market studies, trading areas, and road force control analyses. It is proposed to demonstrate how, after building these studies to the peculiar needs of the Company, they can be applied to secure a more accurate sales forecast. It will be shown how they can be used to control the sales force to produce the sales budget at low cost and in line with the budgeted program.

The Sales Forecast

The basis of the sales forecast is:

1. Past sales.
2. Potential markets.
3. Business conditions.

The detailed results of this forecast, before being converted into the sales budget, should be tempered by the judgment of the sales manager and territorial representatives to take into account the peculiar sales conditions developing within a line of product or in the individual territory; by the departments in charge of inventory and production control to keep inventory balanced and production geared to the sales plan; and by the department responsible for new product developments so that they may be an integral part of the sales budget.

Past Sales Records

Adequate sales records must be available for a period long enough to show trends in sales. The record of past performance

from all the necessary angles will assist in building a sales forecast logically and in line with the general trends of the Company. Sales records covering total company sales, class of product sales, and district sales are available in most companies. The district sales can be broken down further to show an analysis of the sales by trading area. This refinement is desirable where there is not too much overlapping of sales territories. Sales to the various types of trade are an important refinement, to show what is sold to each type of jobber, type of industry, or type of direct consumer. Sales of units of product should be compiled to give as much detail as the complexity of the product line will permit. All of these records available for analysis at the time of the sales forecast will greatly assist in making the forecast accurate and attainable.

Business Conditions

The business conditions factor is an attempt to measure the effect of the existing levels of general business activity in this country upon the company sales. For this purpose the level of the Company's sales line in the past periods of depression and prosperity should be analyzed statistically. If the business level of the coming year can be forecast, past behavior in depression and prosperity will show how the forecast should be adjusted to the business level.

In such a study it is necessary to treat the Company's sales line by a statistical process called cycle analysis. It will be found that three elements enter into the month to month sales of most companies:

1. Secular trend—the long-time tendency of sales to increase or decline.
2. Seasonal variations—the month-to-month change of the level of sales due to the buying habits that vary with the different seasons of the year.
3. Cycle—the influence of business conditions in the country as a whole upon the sales volume of the individual company.

To illustrate: Sales of X Company show a steady growth over the last 15 years, averaging about 10% each year. That is *Secular*

Trend. Wholesalers buy heaviest in the Spring and Fall and run down inventories in December and in the Summer. That is *Seasonal Variations.* Sales were about 25% above normal in 1929 and are now 60% below normal. That is the effect of the *Business Cycle.*

The statistical removal of the trend and seasonal leaves the last mentioned—the cycle—as the measured tendency of the Company's sales line to follow the turns and levels of the business cycle of the country as a whole.

For more accurate analysis of the cycle line of Company X, it is charted and a general business curve, such as the *Annalist* "Index of Business Activity," is charted with it for comparative purposes. Examination can be made of the closeness with which these two lines follow each other, and the effect the general business line exercises in pulling the sales of the individual company along with it.

There are two primary applications of this business conditions study after it has been properly worked out and its meaning thoroughly understood:

1. In forecasting the Company's sales for the coming year. If it is possible to forecast the level of general business activity that is likely to exist, such as 25% below normal, 30% below normal, or 35% below normal, then it is possible to forecast accurately the dollar volume of the Company's sales. Based on the tendency of the past measured from this study, it is possible to tell what the sales should be at any of the business levels.
2. Periodical analysis, monthly or quarterly, will show the management that in the tendency of sales to rise or fall exactly how much is chargeable to changes in the general business level and how much is chargeable to other factors.

Potentials

The next item to be considered in the sales forecast is potential markets. The available market that exists for a product in the country as a whole, the available market for a product in a given area, and the share of that market that the Company enjoys, or should enjoy, are important in the forecast. If the sales forecast

is tied up to past sales alone, the Company and its sales policy are effectively anchored to the past.

Analysis of the potential market, the possibilities of exploiting these markets, and the incorporation of this factor as a definite part of the sales budget, represents the dynamic element in forecasting. It is the only element that yields a definite plan of lifting the Company's sales out of the rut of the past, and of directing the sales program effectively towards sales progress.

The Company should, therefore, have adequate potential market studies. The studies should be designed to meet the peculiar needs of the Company in the market in which they operate. There are as many types of potential market studies as there are companies using potentials. Several of the general types of potential studies, and the method of compiling them will be of interest.

1. Consumer Market.

   A consumer market study consists of measuring the buying power of the people located in a given area. There are a hundred or more statistical indicators of buying power available by state and county. These indicators show buying power, such as automobile registration, income tax data and retail stores. These indicators show the standards of living, such as magazine readers, electric power usage and educational institutions. The compilation of proper potential market indicators to fit the product in question shows the buying power of the various sales districts, and what percentage of the available market is located in each district and area. Chart 2 shows the spread of buying power by sales district in a typical consumer market study.

2. Automotive Market.

   A study of the potential market for a product manufactured for the use of automobile owners should consist of specialized indicators of the automobile population by state and county. Such market data as number of automobiles registered, the number of automobiles under $1,000, the number of automobiles over $1,000, and gasoline consumption and taxes, indicate the various types of automobile markets in which the manufacturer who markets this product to the automobile owner is interested.

3. Industrial Market.

The Biennial Census of Manufacture furnishes comprehensive data on the manufacturing activity of this country. Several sets of industrial market measures are published, such as wage earners, wages paid, value of product, value added by manufacture, and number of industrial establish-

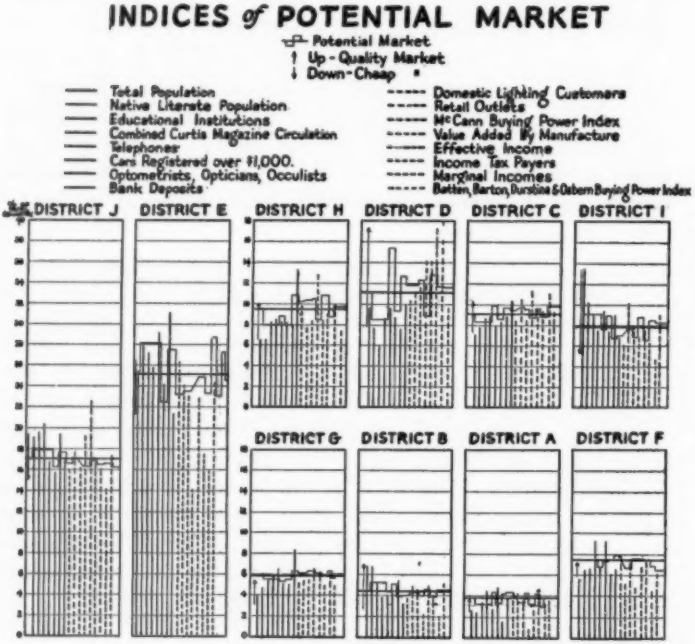

CHART 2

ments. A book, "A Basis for Establishing Industrial Sales Territories," by G. Reed Salisbury, Industrial Marketing Chief, Bureau of Foreign and Domestic Commerce, presents this data with an interesting discussion of its application. Part of this data is available on a county basis in the "Market Data Handbook" published by the same department, and covering the existing market on 365 types of industries. Few manufacturers make a product which reaches each of

these industries, or reaches them with the same degree of application. Therefore, it becomes necessary to isolate the several types of those industries that represent the market for the product in question, and to compile data on the location of these industry types. Chart 3 shows the concentration of the industrial market in the United States in a typical study.

4. Institutional Market.

When the manufacturer is marketing his product to institutions, such as fraternal organizations, schools, governmental institutions and hospitals, an analysis must be made of the application of the product in the various institutions. A study made of the geographical location by sales districts and areas of the fraternal organizations, schools, or hospitals, will show the market concentration. Table 1 shows a typical institutional market study. A chart similar to Chart 3 might be prepared to graphically illustrate the spread of the school market.

5. Farm Market.

If the product is a cultivator, it cannot be sold in any of the above markets, but a special farm market analysis must be made. Market data is available to show value of farm products by county, type of crops produced, and circulation of farm magazines. These indicate the territorial concentration of the farmers' buying power.

6. Dealer Market.

Perhaps it is only necessary to consider the buying power of the dealers who handle the manufacturer's product, and it is not necessary to study the buying habits of the ultimate consumer. In such a case, there are funds of information available on the county location of retail and wholesale dealers by types of products sold, from automobiles and radios to candy stores. The recent Census of Distribution shows the dollar sales of many of these distributing outlets by products. An analysis to show the concentration and buying power of the dealers through whom the product in question is distributed may be developed from this data.

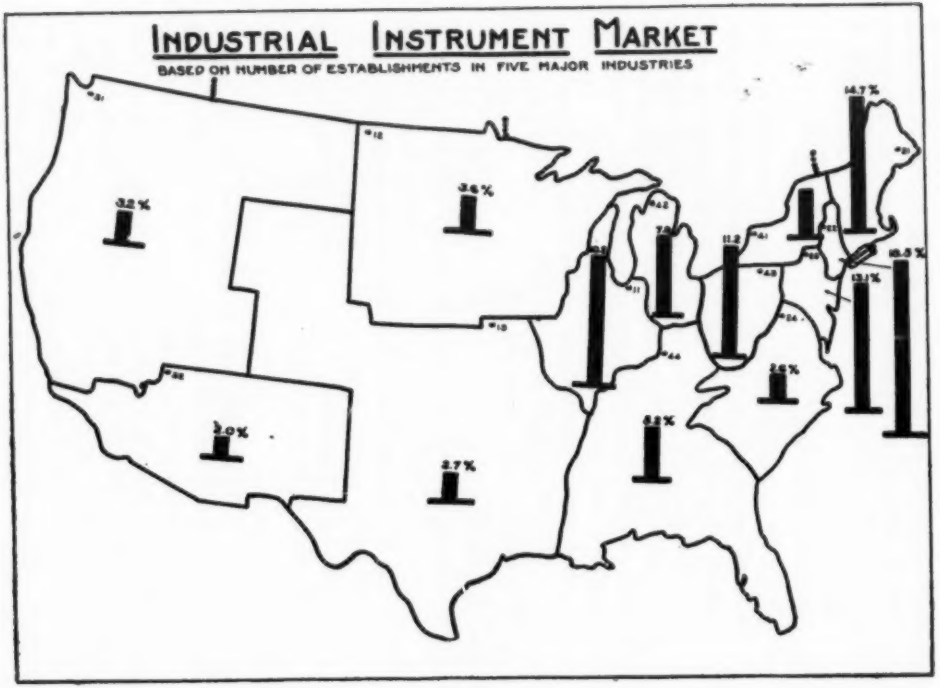
INDUSTRIAL INSTRUMENT MARKET
BASED ON NUMBER OF ESTABLISHMENTS IN FIVE MAJOR INDUSTRIES
3.2%
3.6%
14.7%
11.2
13.1%
16.5%
3.0%
2.7%
5.3%
2.6%

CHART 3

INSTITUTIONAL MARKET STUDY

Point Basis

	Dist. A	Dist. B	Dist. C	Dist. D	Dist. E	Dist. F	Dist. G	Dist. H	Dist. I	Dist. J	Dist. K	Dist. L	Dist. M	Total
Educational	...	...	...	...	...	...	...	...	...	...	...	...	...	....
Colleges and Universities	280	269	268	197	134	166	220	102	168	160	311	160	40	247.5
Fraternal Organizations	121	56	48	80	66	75	67	56	31	31	103	38	18	790.
Technical Schools	42	40	57	39	36	24	39	18	21	18	54	42	15	445.
Trade Associations	26	28	20	10	18	16	18	6	16	14	38	18	4	232.
State Normal Schools	51	77	69	28.5	10.5	24	18	13.5	33	28	60	33	9	454.5
Junior Colleges	44	36	55	8	4	6	34	2	16	12	46	57	42	362.
High Schools	202.5	151.5	204	131	102	81	38	51	78	117	98	138	99	1,491.
State Hospitals	148	83	135	134	141	103	77	46	78	71	118	76	45	1,255.
State Departments	13	9	15	12	4	9	10	..	8	2	14	12	2	110.
Agricultural Exp. Stations	20	20	30	30	5	5	20	5	5	15	35	35	10	235.
Total	947.5	769.5	901	669.5	520.5	509	541	299.5	454	468	877	609	284	7,849.5
Per Cent	11.9	9.5	12.0	8.2	6.6	6.4	7.2	3.4	5.8	6.0	11.7	7.7	3.6	100.0

TABLE 1.

After the potential market study is completed, how can it be applied to the sales problems of the manufacturer? Eight uses are important:

1. The measurement of the market that exists for a product in a given area.
2. The measurement of actual sales of the manufacturer against that potential market measure.
3. Forecasting and budgeting sales to secure an adequate share of the available market.
4. Measurement of trading area buying power within the sales districts.
5. Control of the sales force to place salesmen in contact with the greatest amount of available business and in line with the planned sales policy of the Company.
6. Distribution of advertising, direct mail and periodical, in line with the available market and the selling plan of the Company.
7. Determination of the buying power and concentration of the market for a new product on which no past experience exists.
8. Location of the market for items which have a special application and do not follow the geographical distribution of the general lines of products, such as telescopes, which must be marketed in places where there is scenic beauty or sightseeing of a definite type.

The above are the most important of the usages to which adequate potential market studies can be applied.

Trading Areas

The first and most logical beginning of a territorial potential study is the study of the markets in the various sales districts that the Company has established. To get a more refined picture for the analysis of each unit of territory within the sales district for improving district lines, and for the placing of the salesmen in the proper cities where business is available, it is necessary to break down the sales districts to a number of smaller geographical units or trading areas.

Trading areas vary for each type of distribution. The logical

trading area at wholesale will include the area serviced from a distributing point, such as Rochester.

It includes the counties and towns which buy merchandise of a given type at wholesale from Rochester jobbers. At retail, the counties and towns from which people journey to a shopping center, such as Buffalo, to purchase certain types of retail merchandise, would make up the retail trading area.

The first step in a trading area study is the breaking up of a map of the country into trading areas, preferably along county lines. All available information on the movement of a type of merchandise, such as wholesale groceries, from a distributing point to the towns and counties serviced from that point, should be compiled. Governmental studies, wholesale grocery territory studies, the International Magazine trading area study, a study by the Crowell Publishing Company on national markets, and other trading area studies may be used as additional indicators of the tendency of trade to distribute itself between the major distributing centers. The division of Western New York into jobbing areas around Rochester, Buffalo and Syracuse, would constitute a trading area set-up.

After breaking down each district into its component trading areas, it is necessary to compile market data of the same type as outlined previously for each of the trading areas. By this method it is possible to discover that 12% of the country's market for high-priced automobiles is in the New England district; that 43% of the New England market is in the Boston trading area; 4.5% is located in the Worcester area, and 10% in the Providence area. Chart 4 shows the concentration of potential markets in the various areas making up a typical sales district.

The use to which potential market data by trading area should be adapted is similar to the list previously outlined. Although it is not always possible to study every phase of distribution in such detail, yet for the analysis of direct sales to trading area, for budgeting, and for the routing of the salesmen to town and area, the market in each trading area is essential information.

Sales Control.

The foregoing discussion of the development of the sales forecast suggests that sales can be definitely planned. The budgeted

selling and advertising expense represents the planned effort to produce sales in accordance with the sales budget.

Not always are sales planned as to volume and means of pro-

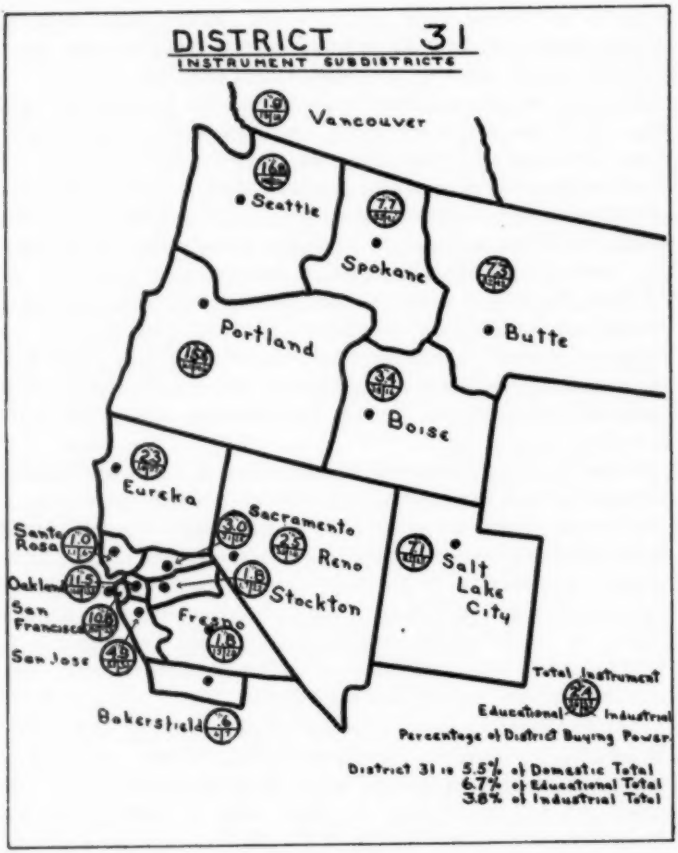

CHART 4

ducing sales, but it seems to be the generally accepted theory that the sales department should go into the field and sell what can be sold, and anything that can be sold. The manufacturing depart-

ment does not work on such a plan. A company whose manufacturing department produced at will anything that could be produced would not long survive. The budgeted money that goes into the manufacturing operation is usually very carefully defined and controlled. Why, therefore, should not the expenses that are to produce sales be also subjected to definite control?

Much difficulty may develop from a selling program which is not tuned to the carefully planned sales budget. It is desirable, therefore, to budget the various products to sales territories and to appropriate the necessary selling expense to produce these sales in accordance with a predetermined program.

The all important question then arises, "What can be done when sales in an area do not measure up to the budget?" If there were an easy answer to this question, sales management would be an easy job. It is is believed that there is an answer, but that answer is not a quick and easy method. In brief, the answer is this: Good cost accounting procedure placed standards of performance against detailed operation in the factory for control purposes. Standards of performance should be placed against every phase of selling activity. A detailed study of the nature of the distribution system that produces the Company's sales, and development of adequate records and standards of performance are necessary.

There are three major types of selling activity that will be discussed briefly:

1. Salesman coverage.
2. Advertising.
3. Distribution outlets.

Salesman Coverage

Measurement of salesman coverage involves a number of studies such as the following:

1. The division of the country into sales districts should be re-studied. Usually unequal distribution of the selling tasks is involved in a district set-up that has just grown up by gradual changes—too great a task for one man and too small for another. Therefore, the analysis of potential markets and past sales in the various districts, tempered by the accessibility factor of that district, compared with the

man power assigned, will indicate whether the distribution of men within districts is correct.

2. Perhaps then it will be found that the number of the men on the sales force is not adequate, or is too great to cover

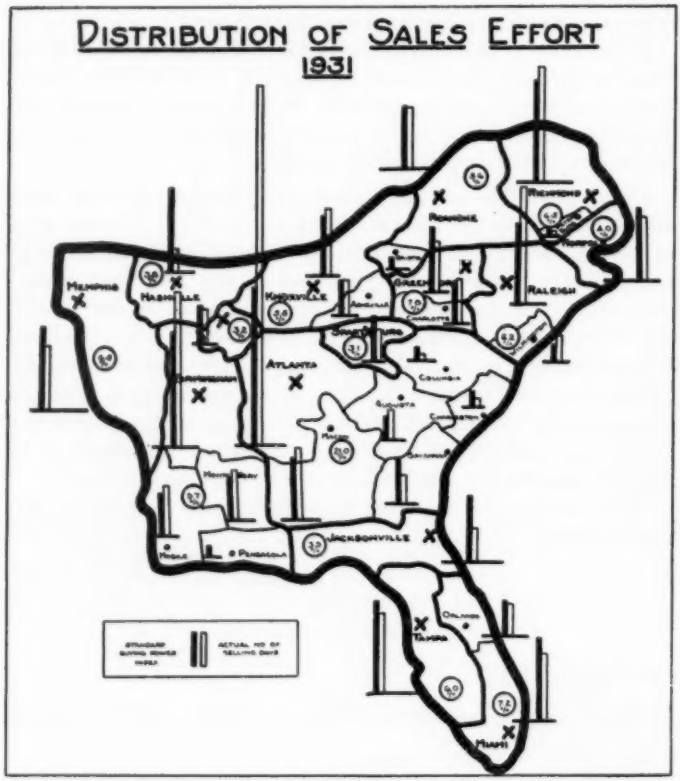

CHART 5

the market assigned. The location of the salesman in a territory over which he has absolute responsibility, with an equitable sales budget that he must produce, is the ideal set-up. It is essential that the salesman's home city be in the business center of the area in order that complete coverage

of the area may be accomplished in the shortest time and with a minimum of traveling time.

3. The trading area study described previously breaks down the sales districts into their component areas. The analysis of how a man is dividing his time among the various trading areas, cities, and towns within his district is the next essential analysis. Perhaps he is concentrating much of his sales time in the vicinity of his home city. If so, other points are suffering. From the analysis of the distribution of the potential market within his territory, coupled with past sales results from these areas, there may be established a standard for the distribution of time within the territory. Chart 5 shows a typical example of the analysis of actual selling time per area compared with a standard.
4. The number of selling days on the road can be analyzed with a simple table of the number of days of travel per man compared with the average of the record of the better salesmen. The maximum available days, after allowance for Saturday, Sunday and vacation, may be determined as a basis of comparison.
5. Lastly, the number of calls per man and per day is important. It is not proposed that a man should be measured as to good performance by the number of calls made. That often means ineffectual sales calls. It is proposed that a simple table of the average number of calls per day would indicate whether or not an adequate amount of contact with prospects is being made.

Perhaps this sounds like a collection of scattered analyses. Each is important. To graphically present the summary picture of all these analyses, Chart 6. is shown. This chart indicates for one sales territory the maladjustment of man power to the district. The distribution of time within the trading areas is out of line. The spread of calls to the various types of trade to be contacted is irregular, as study of the chart will indicate.

Standard Routes

The previous discussion suggests several types of analyses and standards that may be used to show whether the selling effort is being expended to produce sales in accordance with the sales

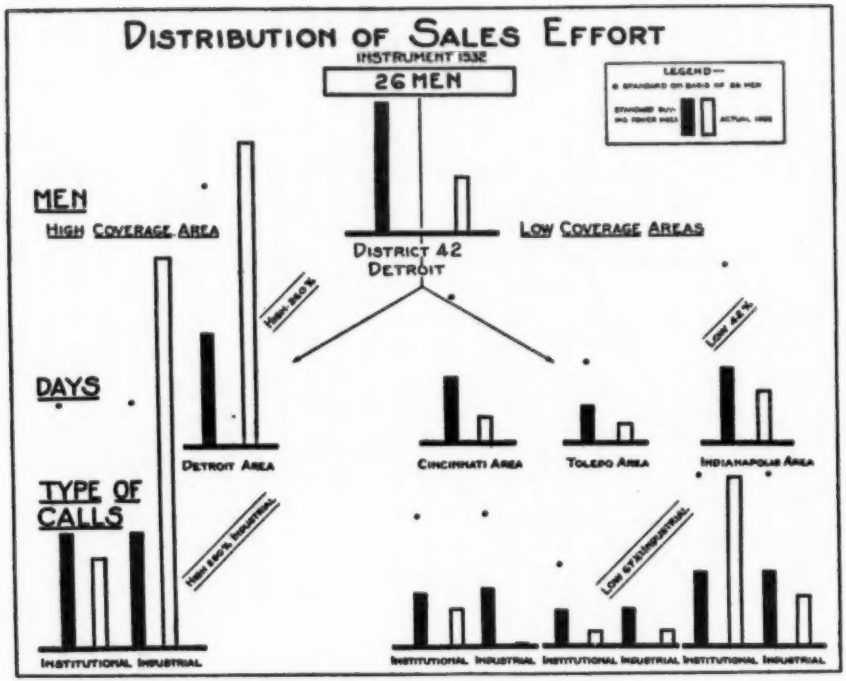
DISTRIBUTION OF SALES EFFORT
INSTRUMENT 1532
26 MEN
LEGEND—
MEN
HIGH COVERAGE AREA
LOW COVERAGE AREAS
DISTRICT 42
DETROIT
DAYS
TYPE OF CALLS
DETROIT AREA
CINCINNATI AREA
TOLEDO AREA
INDIANAPOLIS AREA
INSTITUTIONAL
INDUSTRIAL

CHART 6

budget. It is proposed that this type of salesmen's analysis be carried on until the bad spots in the distribution of sales effort are clearly shown up. Two methods of correcting the situation are possible: first, the man may be shown the shortcomings of his

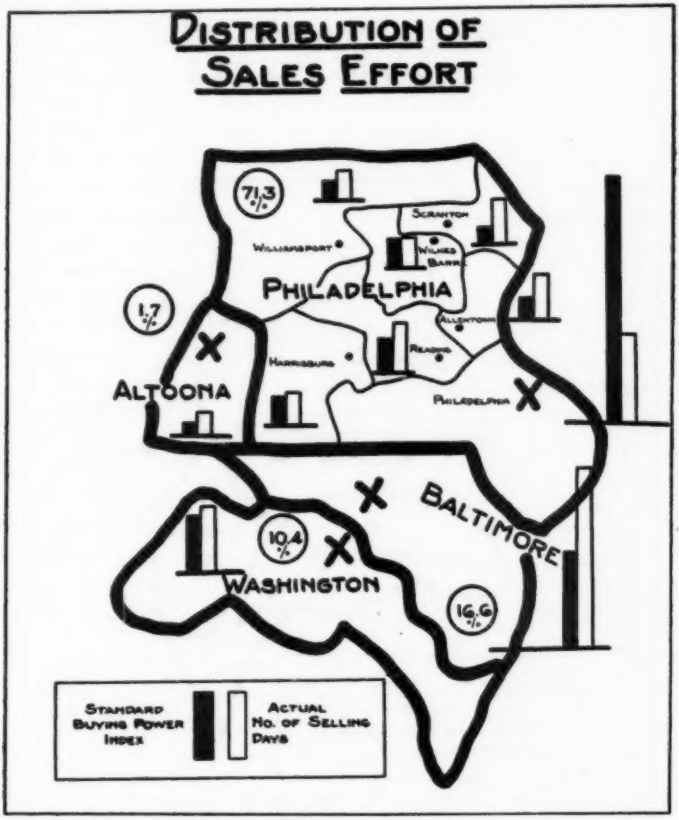

CHART 7

travel and checked periodically until correction is made; second, all of the above standards may be embodied in a single standard system to spread salesmen's activity in line with the selling program.

Standard routes are proposed as a method of clinching all of the foregoing analyses into one system of salesmen's control. Chart 8 illustrates a typical standard rule for a salesman. Previous analyses have shown this salesman was distributing his time

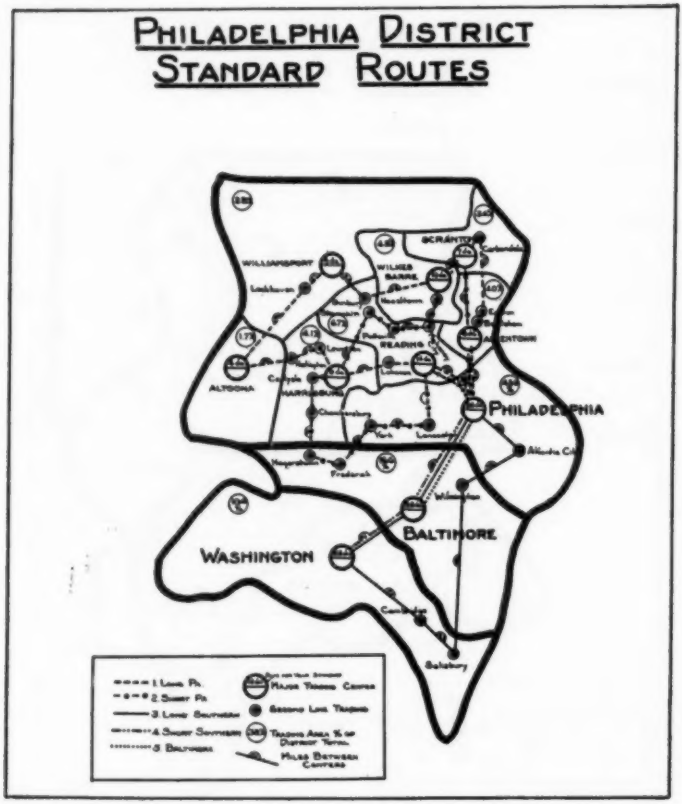

CHART 8

within the Philadelphia area irregularly, as shown in Chart 7, giving to Philadelphia one-third of the time that he should have spent there, and giving three times as much time to Baltimore, an area one-third as heavy as Philadelphia. Further analyses have

shown that this man traveled very irregularly during the year. A great deal of his time had been consumed in traveling long jumps into Northern Pennsylvania, and back into Baltimore within the same week. The standard route chart on this territory was worked out to correct all of these irregularities.

On each of the trading areas a map tack indicates the percentage of the available time that should be spent in the area. Of 260 available traveling days, how many days should be assigned to Harrisburg area, the Reading area, and to Philadelphia in a business year? Tacks indicate not only the trading area centers, but also the second-line cities to be called on. The frequency with which each area should be visited was definitely worked out. Philadelphia should be visited every two weeks, Baltimore every four weeks, and the remaining larger cities at six-week, or twelve-week intervals.

With colored strings, routes were traced from area to area and city to city by a cut-and-try method. The shortest and most economical way of handling the distance to be traversed between sales calls was established. The result is illustrated in the Standard Routes Chart 8 and in Table 2, indicating the arrangement, by weeks, of the trips, the allowable mileage, and the estimated saving over the previous year.

Five trips are indicated by the various colored strings. The first, into Northern Pennsylvania, taking two weeks and stopping at Allentown, Scranton, and Wilkes-Barre, returning to Philadelphia at the end of the second week. Then Philadelphia was to receive one week of sales time, and in the fourth week the route called for a trip into Baltimore three days, then to Wilmington and Camden and returning to Philadelphia for another two weeks of sales work. The salesman's time was laid out on a quarterly basis. It required three months of the year to cover the routes indicated on the chart. Then the same coverage is repeated again for the next quarter.

This complete set-up is presented in table form, also. After following this route for a quarter, a man would have spent exactly the correct number of days in Philadelphia and Baltimore, and in each of the other cities of the area. He would have traveled by the shortest and most economical routes. At the end of the period a study of the number of days spent would correspond ex-

PHILADELPHIA DISTRICT

No. 3

Standard Route

Quarter No. 1.

Week	Day	Month No. 1.	Miles	Allow.
	1			
	2			
(1)	3	Trip No. 1	613	
	4	Long		100
	5	Pennsylvania		
	–	10½ Days		
	–			
	1			
	2			
(2)	3			100
	4			
	5			
	–			
	–			
	1			
	2			
(3)	3	Philadelphia		100
	4			
	5			
	–			
	–			
	1			
	2			
(4)	3	Trip No. 4	300	
	4	Short		100
	5	South		
	–	5½ Days		
	–			

3,153 Miles Per Quarter
12,612 Miles Per Year
At 6 Cents

$756

Week	Day	Month No. 2.	Miles	Allow.
	1			
	2			
(5)	3	Philadelphia	...	
	4			
	5			
	–			
	–			
	1			
	2			
(6)	3	Philadelphia	...	100
	4			
	5			
	–			
	–			
	1			
	2			
(7)	3	Trip No. 2	464	
	4	Short		100
	5	Pennsylvania		
	–	6 Days		
	–			
	1			
	2			
(8)	3	Trip No. 5	214	
	4	Baltimore		100
	5	5 Days		
	–			
	–			

x Off Road.

TOTAL MILES.....	2,153
Allowance	1,000
	3,153

Week	Day	Month No. 3	Miles	Allow.
	1			
	2			
(9)	3	Philadelphia	...	100
	4			
	5			
	–			
	–			
	1x			
	2x			
(10)	3x	Philadelphia		
	4x			
	5x			
	–			
	–			
	1			
	2			
(11)	3	Philadelphia	...	100
	4			
	5			
	–			
	–			
	1			
	2			
(12)	3	Trip No. 3	562	
	4	Long		100
	5	South		
	–	5 Days		
	–			
	1x			
	2x			
(13)	3x	Philadelphia		
	4x			
	5x			
	–			
	–			

TABLE 2

actly to the market study of the ideal coverage. All of the irregularities pointed out in the previous charts would have been eliminated.

It should be noted that the irregular coverage of the territory as indicated by the previous charts would cost the Company $1,626 for automobile mileage. The cost of regular coverage in line with the standard route, with allowance of ample time for special travel within the large cities and off the main line of travel, would be $756, a saving of 53%.

Should this type of standard route be inaugurated as a definite program for the road men? Should it be looked upon as a track upon which a man can be placed and given a push to start him along the way? Or should it be regarded as a pattern of ideal performance—a pattern to be always compared with actual travel for the discovery and correction of changes from the predetermined sales plan? Obviously, it should be considered as a pattern —a standard for the same usages as a standard cost.

Another interesting corollary to this system of standard routes is a plan to hand the salesman a complete list of all available prospects in each area along his route. If, for instance, a man is calling on both the jobber and retail business, there may be 35 jobbers and 325 retailers in his territory, as shown in Table 3. If a complete list of these accounts by area and towns along the route is handed to him, it is possible to build a plan for customer calling. A typical list for Reading, Pennsylvania, is shown in Table 4.

It is logical to go one step further and build a system of perpetual market analysis. This system calls for the turning in of adequate sales reports on each of the accounts on the prospect list. It calls for a system of tabulating pertinent information in the home office. By working over this prospect list from month to month, from salesman report to home office record, it is possible to eliminate the poor credit risks and accounts with low buying power, and it is possible to determine what accounts need the most time and how often calls should be made. Thus a perpetual and always up-to-date market analysis of the territory covered by a standard route is gradually worked out.

Advertising

The distribution of advertising effort should be controlled as far as possible by the potential market study and the planned sales

WHOLESALE AND RETAIL OUTLETS
PHILADELPHIA DISTRICT
No. 3

City	Retail		Wholesale			
	Mailing List	*Directory*	*Class A*	*Class B*	*Class C*	*Class D*
BALTIMORE	141	114	1	..	3	1
Suburbs	1	2				
Wilmington, Del.	20	19				
Hagerstown, Md.	13	14				
Frederick, Md.	8	8				
Total	183	157				
Others in Area	54					
Total Area	237		1	..	3	1
WASHINGTON	103	90	1	..	2	1
Suburbs	3	6				
Cambridge, Md.	4	3				
Salisbury, Md.	8	4				
Total	118	103				
Others in Area	17					
Total Area	135		1	..	2	1
PHILADELPHIA	409	452	2	1	14	1
Suburbs	103	53				
York	17	23				
Lancaster	22	19				
Pottstown	8	5				
Atlantic City, N. J.	16	16				
Total	575	568				
Others in Area	82					
Total Area	657		2	1	14	1

TABLE 3

READING TRADING AREA

Wholesale

Reading—2—Class B

Berks County	*Reading, Pa.*
Reading City	*Reading, Pa.*

Total 2

Retail

Reading—39

S. A. Wagner	*Reading, Pa.*
W. C. Bankers, M. D.	
Sam'l H. Burkholder	
Pearl C. Hackman	
B. I. High	
M. L. Huyett	
L. C. Kaucher	
S. C. Keiser	
K. J. I. Light	
J. H. Rhode	
S. L. Rhode	
A. J. Stockler	
J. L. Wagner	
Frank Womer	
S. A. Brown	
K. B. Bowman	
S. J. Belsinger	
P. J. Wenger	
Alex Kazen	
A. C. Leifter	
N. B. Keeport	
Knight Co.	
J. Lipner	
H. E. Ruhe	
V. H. Ryan	
J. Sassaman	
T. J. Souders	
W. H. Stieff	
J. A. Burkhart	
H. N. Clunke	
W. C. Diller	
J. M. Dunkel	
I. F. Eisenhower	
A. C. Fresem	
Chas. F. Fries	
L. D. Hammelle	
D. P. Harborch	
M. N. Katz	
W. A. Laird	

Total 72

Others in Area 26

Total Trading Area 98

Sunbury—7

A. E. Warren	*Sunbury, Pa.*
N. D. Swope	
S. A. Soper	
C. A. Metcalfe	
H. W. Calhoun	
H. M. Decker	
W. C. Wentsel	

Shamokin—8

E. L. Schoch	*Shamokin, Pa.*
F. P. Sreck	
Henry Harris	
P. S. Mellon	
H. S. Miller	
C. W. Moore	
T. S. Wixson	
C. C. Billing	

Pottsville—10

E. Duell & Son	*Pottsville, Pa.*
C. W. Espry	
H. W. Garis	
W. Meade	
J. W. Woodland	
Miller & Miller	
J. M. Murphy	
M. W. Spear	
F. L. Zwiebel	
T. V. Roth	

Mahanoy City, Pa.—1

T. A. Liachowitz

Lebanon, Pa.—6

G. H. Gerberich	*Lebanon, Pa.*
J. J. Light	
D. M. Reese	
T. P. Culhane	
H. Gruman	

TABLE 4

budget. Advertising is of two types, periodical and direct mail. The magazine companies and newspapers put out volumes of information on the distribution of their periodicals, and the advertising department should be encouraged to choose carefully the right periodical to cover just the type of market that the sales budget points toward.

The company that has a large direct mail advertising budget can most effectively control its advertising program. If, for instance, the problem is distribution of direct mail to industrial concerns, the key to the situation lies in the proper compilation of the mailing list. If, in a study of 365 types of industries, only five industries—metal working, textiles, chemicals, paints, and foods—represent the major market for the product in question, then the mailing list should be built to these same classifications. Sales results on the products sold should be built to the same classifications. Within each industry, a study will show whether the names on the mailing list are distributed geographically in line with the geographic distribution of the market as shown in the industrial market studies.

Distribution Outlets

The distribution outlets through which the product reaches the market should be subjected to thorough analysis. On a product which reaches the consumer market through wholesale and retail outlets, information for an interesting study is available. Several market data publications indicate the number of wholesale and retail outlets by counties by types of goods sold—such as men's clothing, shoes, automobile accessories—and thus through a long list of products. A study of the geographical distribution of these wholesale and retail outlets can be made.

The Census of Distribution goes further to show in addition to the number of establishments the actual dollars of sales in the various counties of the country, at wholesale and retail, for a detailed list of products. The wholesale outlet chart indicates a method of applying that data to a study of the distributing outlets of the individual company. Tables were built to show the wholesale and retail sales of the 400 most important towns and cities of the country. Other pertinent data were tabulated, such as the classi-

fication of these cities as trading centers in several trading area studies, and the number of outlets for optical goods, wholesale and retail in each city.

Based on the total wholesale sales, each town and city of the list of 400 was ranked in order of importance as a wholesale center. With New York, Chicago, and Philadelphia heading the list, they were ranked on a national basis down through the list of 400 cities to Enid, Oklahoma. The results were re-sorted to the various sales districts.

A simple analysis of such a ranked list will show the number of places in which Company X has distribution. It will show up the relatively good cities in which no distribution exists, and it will show the relatively poor cities in which outlets are maintained. Relative strength of competitors' outlets can also be shown.

Bonus System of Salesmen's Compensation

A bonus system of compensation for the salesmen can be used effectively to give the salesmen an incentive to work in accordance with this plan. After accurate sales budgets by district are in force, it is logical that the salesmen should receive compensation on the basis of their ability to make the sales budget.

A bonus system is proposed which will guarantee the man a base rate at low performance. A curve of increasing compensation over the base rate should be established which would give him gradually increasing remuneration as he goes to and over 100% of his budget.

Several factors of sales calls, sale of profitable items, standards for routing salesmen, and road expenses have been discussed. These or any other strategic elements in the sales plan can be incorporated in a point system which would give the salesman increased bonus compensation based on his ability to operate in accordance with the standards developed for his field work and expense. Such a bonus system always produces a highly desirable incentive when it is carefully designed to focus attention on the definitely planned sales program.

In conclusion it should be stated that these are the tools necessary to a workable control of sales and sales expense. These are

the methods of application suggested for the creation of standards on all important phases of selling control. A real attempt to control by this method will produce either or both of the following results. Selling expenses may be curtailed. Present selling expenses may be more effectively directed, which will ultimately bring larger volume at lower cost per sales dollar.

SETTING SOUND SELLING PRICES

By Nelson B. Gaskill, President,
Lead Pencil Institute, Inc., Washington, D. C.

I AM not so presumptuous as to suppose that I can add anything to your stock of knowledge concerning the mechanics of accounting. Consequently, I shall make no attempt at sage counsel with reference to the computation of selling price nor the elements which are to be taken into consideration. Further, to clear the air, I assume that when you asked me to discuss the setting of sound selling prices, you were thinking of a sound selling price as more nearly related to the profit margin than to merely moving the volume of production.

In the practice of your profession, you must have been struck by the fact that the average business man relies on cost accounting not so much for the purpose of calculating a sound selling price as with the idea of keeping his costs below his sales return, and that his selling price is dictated not so much from a cost standpoint as from his own desire to move a larger volume of production or his necessity to meet a market price which some competitor has set for the same reason.

I suggest to you that the business man finds a scientifically sound selling price for any individual working in a competitive market, to be a practical impossibility unless (a) the commodity is covered by a patent monopoly or (b) there can be attached to the commodity, by advertising, a consumer acceptance of a quality element in it which will maintain the demand against lower-priced alternative commodities.

The reason for this condition is simple. We have characteristically thought in terms of production volume to obtain a low rate of production cost. We have thought of a selling price as something which would justify the production volume and capitalize the lowered production cost by moving the increased production. Selling price under these conditions, has not been and cannot be a deliberate and scientific computation. You have taught for years the control of production through a budgeting of sales probabilities based on a sound estimate of cost and profit require-

ments. So far as the general result is concerned you might as well have preached Capitalism to the Soviet Republic.

But if your teaching has fallen on deaf ears, it is neither the stupidity nor the obstinacy of the business man which is responsible. He is confronted by two phenomena of exceedingly practical significance, which bar his way to a sound selling price policy. I may be doing his thinking for him and formulating a defense which may not have taken outline in his own consciousness, but I want to show you his position as I see it. The business man does not object to your thesis; he knows it cannot work.

The first of these obstructive phenomena is the unpredictable price aberrations of competitors. The only approach to price stabilization which is possible among manufacturers in a highly competitive market arises from the similarity of costs and a general recognition of the level at which loss begins. It works through a sort of protective instinct. Other than that, each manufacturer lets some part of his volume go, on one pretext or another, at a loss or at an insufficient margin of profit. He seeks a higher profit rate on the balance of his sales. Particularly as sales volume tends to concentrate in the hands of large dealers, this counterbalance of profitable and loss prices becomes intricate and delicate. The more intricate it becomes, the more susceptible it is to the threat of a sudden competitive price change, and when price rather than an established consumer demand determines sales volume, these price changes become more rapid and more severe.

The only foundation for a sound selling price in manufacture distribution presupposes a uniform method of computing selling prices, with a strict requirement that the same elements of cost and of profit be taken into consideration at their proper, individual rates. For instance, suppose there were an absolute requirement operative over the whole of a particular industry, that the minimum selling price permitted any individual manufacturer at least equal the return of all costs; that by reason of a uniform accounting system, there was a common understanding as to the computation of cost. While the individual minimum prices might differ, yet each of those competitive selling prices would be soundly constructed. There could occur no displacement of one manufacturer using a sound selling price by another using an axe.

Unfortunately this supposition has now no foundation in fact.

Manufacturer selling is a highly agile opportunism. It needs a seismograph to record its past and a crystal gazer to foretell its future. As a man said to me the other day, "You can't run this business on an ideal basis. If you do, you will go broke." This man is no more deficient in ideals than he is lacking in intelligence, as his competitors will admit. Business men do not like this situation but they are individually helpless under it, since there is no procedure open by which it can be controlled through collective action. In some occult manner, this state of affairs is supposed to promote the public welfare.

It would be fortunate if this were the complete outline of the practical objections to a soundly conceived selling price structure, but the worst is yet to come. If we assume that the conditions required for sound selling prices obtain in the manufacturing group, the second phenomenon awaits attention. This is the complete breakdown of functional distinctions and the disregard of functional service costs in the field of distribution. To make this clear to you, it will be necessary to take a hypothetical case.

We will suppose that John Jones, a bright, young, college graduate with no business traditions or experience but with some capital, decides to go into business. He will make what are known as shelf goods. We will suppose that he is equipped with the most modern plant and machinery, a production engineer, a cost engineer, and advertising manager and a sales manager. He is all ready to toot the whistle and start the wheels going round. He summons all his engineers and managers and tells them to work out a sound selling price, estimate a sales quota, calculate a production schedule, a sales dollar, a cost dollar and have them all ready for him next Monday morning. At that point some one asks him whether his price is to be based on the wholesaler or the retailer and then the trouble starts.

We will suppose he decides to go the traditional road and bases his price on the wholesale transaction. By some process he arrives at the conclusion that the wholesaler needs 15% of his selling price and the retailer needs 25% of his selling price. So he takes his own sound requirements as 60% of the proposed price to the consumer. He calculates 100% as his list price and quotes the wholesaler at 40 off list. We will assume a good demand for his product. For the time being, his carefully selected whole-

salers sell the retail trade at 25% off list and retain their full margin of 15%. We will assume another miracle, namely, that the retailers do not cut the full list price but stand on their margin of 25%.

But into this Paradise comes Satan in the form of a large retailer. Not a fat man but a chain store, if you like. He talks in terms of carload lots, large volume of sales, no selling cost, nation-wide distribution and quick turnover. While we are assuming miracles we might as well assume another. This large retailer asks only the wholesale terms, 40% off list, as a quantity discount. He gets the goods and he has quite a margin to play with. He can undersell the retailers buying from the wholesalers by about 15% before he begins to trench upon the normal retail margin of 25%. This is where the assumption of miracles must stop. This retailer has nothing to gain by maintaining the list price and has no intention of maintaining it. The greater the reputation the commodity has as a nationally advertised brand, the more certain it is to become a cut-price "loss leader" in the hands of this large distributor.

Now let us follow events backward. This particular oversize retailer cuts the price to the consumer. The effect upon other retailers of the commodity is immediate. They come back upon the wholesaler for a price which will enable them to meet this competition. The wholesaler passes the demand back to the manufacturer, and unless the manufacturer can create by advertising a consumer demand strong enough to force the wholesaler and his retailers to handle the commodity at an insufficient margin or at a loss, his price structure breaks down, no matter how soundly it is constructed.

While he is wrestling with this problem Mr. Jones' Paradise is invaded by seven other devils. To him appear the purchasing agent of a large corporation, the manager of a buying syndicate of retail stores, the manager of a voluntary chain of retail stores, a contract jobber, etc. They sing one siren song though in divers tones; quantity buying and no selling cost, quick turnover and national distribution.

If Mr. Jones sells the consumer direct it must be on terms better than the retailer would give, else the purchasing agent has no justification for his existence. This is a wrong to the whole distributing trade. It sucks their life blood, a current which comes to them

from the volume of consumer sales. Finding their volume declining, they are more than ever apt to seek to recover volume through cut prices. The buying syndicate, which merely negotiates for prices, places no orders. The member stores get the advantage of prices on quantities they do not sell and thus reap a margin with which to play. The manufacturer is saddled with the cost of selling each one of them. The members of the voluntary chain gain a similar position and the contract jobber, with no overhead that is recognizable, plays hide and seek with the lot. This incoherent derangement is shot through with secret discounts, rebates, advertising allowances, commissions to salesmen, free deals and what have you.

As sensible men, you will doubtless say that no sensible man would do all these things. You would be surprised! But let us suppose another miracle. Mr. Jones gets fed up with all this and goes back to a strict wholesale basis. Then he discovers that a great many wholesalers are also operating retail establishments, and he has the same problem to meet in another form.

So far we have seen only the problems that arise out of Mr. Jones' own actions. Let us throw in a few active competitors to make the picture completely haywire. We will give Mr. Jones credit for tying up the best wholesalers in the chief distribution centers, by exclusive dealing arrangements. So at least some of his competitors are compelled to drive directly at the retailers. Now unless the list prices of these competing manufacturers are much the same as Jones' and they preserve the same differentials as Jones by selling their retailers at 25% off list, Jones' retailers are shot as full of holes as a Swiss cheese. These competitors selling the retailer direct will retain the wholesaler's 15% margin to cover the added cost of selling the retailer, and they will have nothing to gain by not selling at least 30% off list. They do so and a new resale price level is created. Jones can reduce his price or increase his advertising appropriation but either one puts a kink in his sound selling price.

I think it can be written down as a law of price making that the validity of a sound primary selling price depends upon its projection through to the consumer by distributive agencies rendering the same functional service and incurring the same elements of functional costs. It is the underlying body of service costs equally

encountered by all the distributive agencies involved, which carries through to conclusion the manufacturer's basic element in the ultimate consumer price. Of course, the violation of this law is destructive of the sound pricing of the distributor whose service cost is ignored when his function is disregarded. Sales to the retail trade direct, at prices which do not include the wholesaler's differential, wreck the wholesale trade.

In my opinion, this loss of recognition of functional service costs and their relation to a sound system of selling prices from producer to consumer, is a part of the confusion which was created in the mad rush for an increase in sales volume. This was a phase of the mass production movement, the search for lower costs to make lower prices to move an ever-increasing volume of production. Manufacturers naturally became obsessed with the one element of quantity in sales.

In the earlier days of our industrial development, the ordinary course of distribution was manufacturer to wholesaler to retailer to consumer. The jobber acted as a safety valve, handling seconds, odd lots, obsolete goods, excess inventories and the like. The significant fact is that the *quantity* buyer was characteristically the wholesaler or the jobber. The quantity discount and the wholesaler's trade discount were one and the same thing. Quantity buying by the retailer began with the department store but the merchandising operations of these stores were so limited that the quantity discounts received by them passed almost without recognition or notice. Then came in rapid succession the mail order house, the chain store, the buying syndicate and the voluntary chain, all retail operations. But they claimed and received as *quantity* discounts, the equivalent of the *trade* discounts formerly given for a *different functional service,* and the cost of this short-circuited functional service was thrown back upon the manufacturer.

Naturally, the distress of the wholesaler under these conditions is extreme. He has either largely passed out of the picture in those parts of the country where the large retailing systems have become established or he has become by force of circumstances, a retailer also. This mistaken use of the quantity discount is now in an acute phase. Retail stores are banding together in voluntary chains. At least one of them now numbers more store members than the largest corporate chain. It is a contest for the appear-

ance of the greatest quantity of sales as a basis for the largest quantity discount. The manufacturer is caught in a snare of his own devising. The drive upon him for price concessions is enormous. Chain must meet chain, the voluntary chain must meet the corporate chain and vice versa. The independent must meet them both.

As mass retail buying comes to dictate price terms to the manufacturer, it also throws back on him the costs of the wholesaling service. The manufacturer's prices go down and his costs go up.

If anything is needed to give a spicy flavor to this dish, we have only to add the supposition that Mr. Jones is primarily interested in nationally advertised, standard brands which encounter a number of lower-priced private brands being offered for sale at lower prices.

This is a rather impressionistic picture of the deranged distribution system into which the manufacturer's sound selling price must go. I do not think it surprising that the manufacturer, or for that matter the dealer, should regard selling price as capable of no scientific improvement. Selling price is not static but fluid, it is not stable at any level nor is it constant with reference to a margin for profit. Net profit is a matter of average selling prices which are dictated by circumstances over which neither the individual manufacturer nor distributor has any control.

I assume that when you speak of sound selling prices, you are thinking of selling prices which, while not necessarily constant in amount, are at least always constant in relation to cost return and the necessary profit margin. Unless he has or can secure for his commodity a sufficiently strong consumer demand and avoid the flagrant, price-cutting distributors, the individual manufacturer can hardly hope for any better price-making methods than those which are thrust upon him by his competing manufacturers and by the different functional types of distributors.

I assume further, that you are not so much interested in a better pricing method for the individual as in the possibilities of the systematic use of better pricing methods both by manufacturers and distributors. If you are thinking in these terms, the implication is that you are thinking of production and distribution as a procedure capable of being organized, systematized and made subject to the statement of governing principles and rules. I beg

you to note that if you are even beginning to think in these terms, you have abandoned the dogma of an unlimited freedom of competition as the source of the public welfare. You are thinking in terms of an orderly procedure, under the control of some established principle, directed at a perceived objective instead of a helter-skelter cross country race in which the only rules are that the fittest will survive and the Devil get the hindmost. If you have gone so far in your thinking, you have necessarily come to the point where objection, economic or legal, to what is commonly known as "restraint of trade" is untenable. You will, on the contrary, perceive the necessity for some very decided restraints upon the unbridled liberty of competition because you will be thinking of a regulated competition, the coordination of personal actions to produce a desired result.

The proposition is rather startling to a conservative retention of traditions. But I ask you to imagine a system of production and distribution under which a sound pricing system operates throughout from producer to consumer, and to add to your mental picture, a certain continuity of employment, wages and purchasing power as the necessary consequence. Let us suppose that this scientific system represents the accepted tradition and some one proposes to overthrow it, to substitute an uncontrolled individual opportunism. He proposes to enforce the substitution by all the powers of government. The reaction to such a suggestion would be a well-founded horror! But is it horrible to suggest a reversal of the picture?

Frankly, I desire to spur your thinking along this path. If you are going to do this, you will need perspective, you must see business objectively with the same disengaged impersonality as an engineer inspects a machine for defects. It is not men but methods that you must consider, not mankind but one of his inventions, a mechanism not conceived as a whole but a fabric loosely thrown together, as to the efficiency of which, mankind is beginning to be afflicted with doubt.

No one should know better than the qualified accountant that the conduct of any business is absolutely dependent upon the return through sales, of the equivalent of all expenditures as the minimum requirement. When this result is not obtained, a depletion of capital sets in. It may be arrested by the use of credit which merely

postpones the required reconciliation. Credit is another cost charge which must be covered out of future sales return. Business is the use of capital which in use, must replace itself. If it does not, the use exhausts the capital. To you at least, this is axiomatic. It is so much a commonplace that we ignore the deliberate taking of losses, the occasional business failure just as healthy people ignore the minor current of continual sickness and deaths until sickness becomes epidemic. What alarms us in either case is neither the common fact nor its cause, but its sudden emphasis and extension.

It is seldom that we ever think of our business methods in their cumulative relation to a national or nation-wide balance sheet. When I speak of a national balance sheet, I do not refer to the condition of the United States Treasury. I mean the sum total of all of the infinite number and variety of the uses to which money, capital, is put day by day, by all the people of this country. I have in mind all exchanges of money for the use of money, of money for property, of money for goods, money for amusement, money for labor and service. I am thinking of the productive and non-productive uses of capital, all involving either the replacement of capital or its depletion, in the individual account. I am thinking of the balance sheet upon which all these individual operations are theoretically entered as showing either a net loss or a margin for profit on the nation-wide operation. I am seeing this national balance sheet as though it were a financial statement which as a nation, we were required to present to a gigantic international bank at the end of each year, as the basis of the next year's credit. I think it is quite clear that this national balance sheet shows a net loss over a period of several years.

As an isolated phenomenon, one man's selling at a loss, one man's bankruptcy, causes no alarm. We acept it as a casual occurrence. But when the nation is operating at a loss, when the loss burden is likely to be transmitted to the Government, when taxation becomes a capital levy because taxes cannot be paid from a national profit, when every expenditure of money, derived from taxation for non-productive purposes which cannot be covered out of profits, becomes a depletion of the national capital, it seems appropriate to inquire whether the control of the national balance sheet is not after all, the promotion of the public welfare. Does

not the control of the national balance sheet commence with some control over the methods commonly employed by individuals in their use of their part of the national assets? This thought also, is shocking to the highly individualistic concept of rights in which we have been trained. It is only in times such as these that we are willing to see that the exercise of rights entails consequences, though we may not like the consequences as well as we like the rights.

In this national balance sheet we are all inextricably tied up together. In a single store, a sale at a loss must be covered by another sale carrying a margin large enough to cover the loss and provide the necessary profit on both sales. The one customer is in effect, surcharged with more than the other's gain. So in the national balance sheet, the successful merchants must cover the losses entered by those who fail. On a still wider scale, profit earning industry must contribute an excess profit to cover loss producing agriculture or vice versa. The national balance sheet is a composite whose condition reflects back upon every individual whose operations contribute to it as all are conditioned by it. We can realize this fact only when the sum total of loss factors so generally and completely outweighs the elements of profit as at present. But it is this inevitable and universal dependence upon the state of the national balance sheet, which seems to me to invest its control with the very highest conceptions of the public interest and the public welfare.

We have been trained to think of private profit as in some way reprehensible, a manifestation of greed, a proof of an undue and unjust exaction. There have been exaggerations of profit seeking. The perpetrators have been characterized as "malefactors of great wealth" and doubtless some of them were. But these exaggerations should not cloud our perception of a fundamental truth. In the capitalistic state, profit is a paramount necessity. If we could see the implications of the capitalistic system as clearly as the Soviet leaders see the implications of Communism, we should deny and resist the loss-taking operation as strenuously as they oppose private ownership and private profit. Our system cannot exist without the continued replacement of capital in use. Their system cannot exist if the use of private capital is permitted to develop private profit.

Consequently, if we are thinking in terms of a restatement of economic policy so as to permit the better price making with all that that entails, I submit that the governing principle should be the control of selling price by the requirement of the return of cost as the minimum below which, except for some necessary concessions, the individual selling price may not go. This is in effect, to trace the national calamity back to its beginning, in the loss-taking individual transaction and commence the reconstruction at that point.

Suppose we apply this rule to the two phenomena which now practically obstruct the systematic computation and use of better selling prices. First we will suppose the rule to be applied to the manufacturing group. Naturally this presupposes a uniform cost accounting system. It is more than likely that as each of these manufacturers for the first time comes face to face with a collection of all his costs, properly spread over his production volume and their relation to unit price with all margin requirements, so stated that each unit sold would return its due proportion of gross profit and gross margin, he would have heart failure. His successor would find quite a range of competitive prices. The pressure on all elements of waste, loss and non-productive activities would be immediate and enormous as well as effective. Everything would be subjected to the acid test of measurable return of cost. Competitive prices would no longer depend upon financial strength to sustain loss but upon ability and efficiency stated in terms of sound selling prices. The quality of the product would return to the sales argument. All that any manufacturer would have to fear from a competitor would be either a lower cost and marginal requirement on an equivalent commodity or an equivalent price on a better commodity. That is all he ever ought to be called upon to meet.

The derangement of the distributive mechanism, the complete breakdown of functional distinctions and their correlative elements of costs, has gone so far that any suggestion for its rearrangement must seem revolutionary. Some elements in this field have for the time at least, been markedly successful but largely because they were not obliged to meet an irreducible cost minimum. Their overhead, particularly in the form of rent, was high, some-

times excessively so. They achieved a lessened operations cost and a higher turnover rate, but in the main they pushed back the prime cost, as well as some of the cost of wholesaling, upon the manufacturer. They will not encounter the irreducible prime cost until they reach the point where the manufacturer can concede no more in price and quality or they take on manufacture.

If, however, we close the limit of manufacturer price concessions by his cost requirements and this prime cost plus the distributor's costs becomes his resale price minimum, the distributor stands on a parity with the manufacturer with an established, irreducible cost.

As between retailers of the same commodity in the same trading area, there will be conflict unless differences in resale prices represent only differences in overhead and operating costs. Difference in cost subsequent to prime costs of the delivered commodity becomes a legitimate competitive advantage whereas differences in the prime cost of the commodity become unjust discriminations. As no retailer is entitled to the true "trade" discount which belongs to the wholesaler, all secret discounts, rebates, concessions and allowances not for measurable and measured service, go by the board. Here we must take the quantity discount all apart. We must see it as a cost which is to be returned.

The value of a quantity discount, strictlty speaking, is measurable as the present value of a future payment, the relief from interest and storage charges, possibly a lessening of delivery charges if the seller makes delivery. In other words, in the light of the stated principle, the allowance of the quantity discount is the payment to the buyer for the assumption by him of certain charges which otherwise would be borne by the seller. It is a recognition of and a payment for certain function services and costs and the amount of these is the limit of the quantity discount. In excess of this amount, it is a price concession and an improper price discrimination. The quantity discount must be reduced to its true terms as a return of cost.

In coming to the question of selling the wholesaler and the retailer, one faces a stark and grim alternative. Because their functional service is different, their costs are different. To make one prime cost to both types of distributor, the selling price would have to be calculated on the wholesaler. To this base, we suppose

the wholesaler adds 15% and the retailers to whom he sells, add 25%. The retailer buying direct at the same price as the wholesaler, adds 25% and undersells the other retailers by 15%. The manufacturer's selling price will be forced down to the level fixed by the direct buying retailer, simply because the wholesaler's function has been thrown back on the manufacturer and its cost is not expressed in the retailer's selling price. On the other hand, if the manufacturer's selling price is calculated on the direct sale to the retailer, the wholesaler is wiped off the map.

Now here is the stark alternative. If sound selling prices both for manufacturers and distributors are not a delusion, never to be realized, the wholesaler must go and the selling price system must be based on the retailer sold direct or there must be a classification of distributors according to the function served with an established trade discount or differential between them. This differential would have to be observed in all sales to the retail trade direct or such sales be prohibited. The wholesaler-retailer, the retail-wholesaler, the buying syndicate would have to become one thing or the other.

I suggest the existing conditions and these alternatives as something to think about.

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